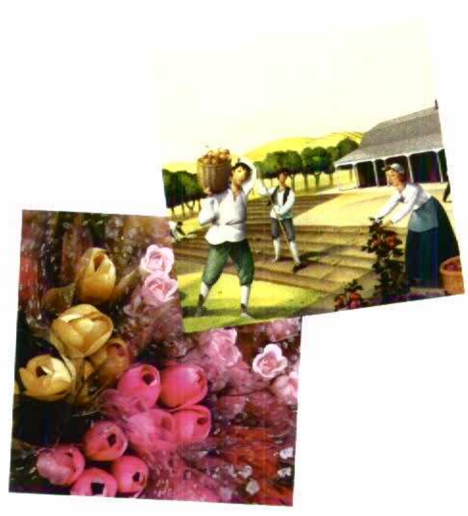
The Great
Atlantic & Pacific
Tea Company, Inc.

doing MORE for you...



1995 Annual Report

Comparative Highlights

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands, except per share figures)	Fiscal 1995	Fiscal 1994	Fiscal 1993
Sales	$10,101,356	$10,331,950	$10,384,077
Income (loss) from operations	151,734	(57,530)	68,280
Income (loss) before cumulative effect of accounting change	57,224	(166,586)	3,959
Net income (loss)	57,224	(171,536)	3,959
Income (loss) per share before cumulative effect of accounting change	1.50	(4.36)	.10
Net income (loss) per share	1.50	(4.49)	.10
Cash dividends per share	.20	.65	.80
Expenditures for property	236,139	214,886	267,329
Depreciation and amortization	225,449	235,444	235,910
Working capital	178,307	97,277	79,207
Shareholders' equity	822,785	774,914	994,417
Debt to total capitalization	.49	.53	.45
Book value per share	21.53	20.27	26.02
New store openings	30	22	16
Number of stores at year end	1,014	1,108	1,173

Company Profile

The Great Atlantic & Pacific Tea Company, Inc. ("the Company"), based in Montvale, New Jersey, operates conventional supermarkets and larger superstores in 20 U.S. states, the District of Columbia and Ontario, Canada, under the A&P, Waldbaum's, Food Emporium, Super Fresh, Farmer Jack, Kohl's, Sav-A-Center, Dominion, and Food Basics trade names. As of the fiscal year ended February 24, 1996, the Company operated a total of 1,014 stores. Through its Compass Foods Division, the Company also manufactures and distributes a line of coffees under the Eight O'Clock, Bokar and Royale labels, both for sale through its own stores and by other companies outside of A&P's trading areas.

About the Cover

This year's annual report focuses on "doing MORE for you." We are investing in our stores, products, and employees, refining our merchandising and redoubling our services for customers, to give them more and provide them with all of the products and services they need on their weekly shopping trip. From full floral departments, to enhanced offerings of produce and prepared foods, frequent shopper cards, pharmacies, and banking services in bigger, better stores, we're "doing MORE for you."

Contents

Letter to Shareholders

In 1995, we resolved problems that previously impeded the profitable operation of our stores in Canada and Michigan.

We are pleased to report that in fiscal 1995 the Company made significant progress toward attaining strategic objectives in sales, earnings growth and the overall positioning of its business.

The momentum achieved in the past year has been powered by several factors: the resolution of problems that previously impeded the profitable operation of our stores in Canada and Michigan; continued aggressive execution of our new store development program; and implementation of creative merchandising initiatives which promote customer loyalty and satisfaction, while bolstering our bottom line.

For the year ended February 24, 1996, the Company recorded net income of $57,224,000, or $1.50 per share on sales of $10,101,356,000 compared with a net loss of $171,536,000 or $4.49 per share on sales of $10,331,950,000 in fiscal 1994. The 1994 loss included unusual and non-recurring charges of $187,000,000 or $4.90 per share, primarily associated with a valuation reserve related to Canadian operations, as well as the adoption of a new accounting standard for Postemployment benefits.

The fourth quarter of fiscal 1995 produced sharply increased net income of $25,555,000 or 67 cents per share, up from $5,777,000 or 15 cents per share in the fourth quarter of fiscal 1994. Included in the fiscal 1995 fourth-quarter earnings is $6,500,000 or 17 cents a share, representing a refund of previously paid taxes in Canada. Thus, on an operating basis, fiscal 1995 earnings were $1.33 per share, a substantial improvement when compared with 54 cents per share in 1994.

Continued Improvement in Canada

Operations in Ontario, Canada, last year were profitable as the Company realized the benefits from the prior years' associate buy-out programs and improved marketing and merchandising programs. In addition, the introduction of our new limited-assortment, low-cost Food Basics format was facilitated by a new union agreement that provides labor cost reductions and parity with our low-cost format competitors. By year-end the Canadian group had 13 Food Basics stores open, seven of which are franchise stores, in addition to A&P, Super Fresh and Dominion outlets and we have a number of additional Food Basics locations ready to come on stream in the near future. We expect a solid core of such units by the end of the year, which will give us an excellent mix of competitive store formats for future success.

U.S. Store Development Expands

Throughout A&P, our store development program continues to fuel the Company's long-term strategy for earnings growth and market share. In 1995, we opened 30 new stores, many in the 50,000 square foot range. This was a major part of our $236 million in capital spending, which also included the expansion or remodeling of 76 existing units. We are accelerating the

(seated)
James Wood
Chairman of the Board and Chief Executive Officer

(left to right standing)
Fred Corrado
Vice Chairman of the Board and Chief Financial Officer

Christian W.E. Haub
President and Chief Operating Officer

store development program in 1996, with 35 to 40 new supermarkets and total capital spending planned at $310 million which will also include 94 expanded or remodeled units.

While the addition of large, customer-friendly new stores is a prerequisite for building a strong profitable store base, discontinuing older, unprofitable and usually smaller units is also an integral part of the process. This past year, we closed 124 stores among all A&P operating groups. This included the 23 now opened or being converted to Food Basics in Canada, as well as the sale of eight stores in the Rhode Island market. From 1990 through 1995, a total of 136 new stores have been opened, while some 501 units have been expanded or remodeled. At the end of fiscal 1995, we operated 1,014 stores in 20 eastern states and Canada.

In our Metro New York Group, we strengthened market share by adding seven new stores in 1995, and the expansion continues with the opening of super stores in Staten Island, N.Y., Old Bridge, Kenilworth and Woodcliff Lake, N.J. in early 1996. These new super stores are in the 60,000 square foot range and feature a Pharmacy and Full Drug Store, expanded Produce, Delicatessen, Bakery, Take-out Foods and Floral departments. We have also added kitchen, small appliances, specialty pet shops, in-store banking, 24-hour photo processing, video rentals and other services to provide true weekly one-stop shopping customer convenience.

Our Food Emporium stores also continued to expand with the conversion of two A&P supermarkets in suburban New York areas to Food Emporium where their gourmet-upscale concept has strong customer appeal. The Food Emporium approach continues to have a special influence on our entire chain by improving quality and services.

The Waldbaum's subsidiary, with 91 stores on Long Island and in Westchester County, New York, struggled with a very price-competitive climate in 1995, but is now showing good progress with a stronger marketing and store development strategy in 1996.

In New England, the April, 1996 grand opening of our Super Foodmart in Springfield, Massachusetts, set a new company record for opening week sales volume. The 85 A&P and Waldbaum's Foodmart stores operating in New England are concentrated in Massachusetts and Connecticut, and we will add three additional new stores in these marketing areas in 1996.

Our Super Fresh operations in the Delaware Valley and Mid-Atlantic states opened two new stores the past year and have 12 more planned for 1996. Super Fresh continues to build its market share in our Philadelphia and Mid-Atlantic groups and is well positioned for strong future growth.

In Virginia and the Carolinas, where we have been at a disadvantage against non-union competition, we have introduced a new marketing approach with heavy emphasis on produce, perishables and discount pricing. We have used the Farmer Jack name, but have given it a South-Central twist and currently have six of these unique stores in operation and doing very well in that region.

The Southeastern and Southern groups comprise 82 stores, principally in Atlanta, New Orleans, Baton Rouge and the Gulf Coast. Our Atlanta operations have held their own against the large expansion of supermarket square footage in that growing region over the past few years. We have maintained profitability and are now looking for opportunities to expand and grow. In Louisiana and the Gulf Coast, our newer stores continue to be among the best performing large stores in the Company, prompting us to seek opportunities to develop more of them.

We have seen a strong turnaround in the Midwest, with the progress of our Farmer Jack stores in Michigan. We opened seven new Farmer Jack stores in the past year and expect that progress to continue with more development in the future. We added two new Kohl's stores in Wisconsin last year as that group continues to be consistently profitable and maintains a unique position in its markets.

Marketing and Merchandising

In 1995, we emphasized a chain-wide objective to become the leading produce merchant in our marketing areas. We began converting our produce departments to reflect the charm and feel of a country farm stand. Under this format, we offer a wider selection of fresh products, including organic and locally grown fruits and vegetables, as well as ethnic specialities and produce favored by residents of a specific geographic area. We have found that these expanded produce departments not only generate additional produce sales, but also improve total store sales overall.

Last year, we installed the new produce format in more than 400 stores. We intend to complete this conversion process in most of the Company's remaining U.S. stores by the end of the first quarter of fiscal 1996 as well as introducing it in our Canadian stores. In addition, we plan to take the expanded produce strategy and apply it to other perishables, such as baked goods, deli products, and fresh seafood. This strategy helps enhance customer appeal, while improving product mix for gross margin growth.

In another key merchandising initiative, we finalized our consolidation of various store brands into our "America's Choice" private label. We now have over 1,500 separate items labeled as "America's Choice," a line of private label products with the quality of national brands, but at a substantially lower price.

Hand-in-hand with these merchandising efforts, A&P provides a number of marketing programs to heighten its appeal to shoppers. Examples include our Frequent Shopper Club cards, which qualify customers for special discounts and also serve as a check cashing vehicle, and "Express" and "Fast" lane checkout services that increase customer convenience.

Looking Ahead

Fiscal 1995, indeed, was an important year. Not only did we record our best second-half financial performance since our peak year in 1990, but we also established the momentum necessary for continued improvements in the future. A&P is back on track and moving ahead.

For the progress that we have achieved in the past year, full credit goes to our thoroughly tested people, whose skills and dedication have successfully translated strategy into action. On behalf of our management team, I want to thank our employees and our shareholders for their steadfastness and support. I have every reason to believe that our response to the challenges and opportunities ahead will carry A&P to higher levels of success for our shareholders, customers, employees, and the communities we serve.

James Wood

James Wood
Chairman of the Board and
Chief Executive Officer

More

Savings

Quality

Pharmacy

Selection

Video

Produce

Take-Out

Banking

Woodcliff Lake is our new flagship store, built on the site of a farmer's roadside stand. The mural, below, represents "the farm" heritage of our expanded produce departments.

doing MORE *for you...*

The Woodcliff Lake A&P (above) is Bergen County, New Jersey's largest and finest new superstore. It encompasses our weekly one-stop shopping concept and is the most energy-efficient store using new technologies designed to save over 1 million kilowatts a year.

The Pet Shop is just one of our new customer-oriented departments.

Our eight newest and most spacious A&P Supermarkets in New Jersey embody the Company's pledge, "doing MORE for you." These stores of the future are designed to maximize customer convenience by providing a variety of new features and services. For example, each store's wide aisles afford easy access to shelves stocked with a great variety of quality foods and delicacies. Specialized departments include an enlarged produce department, a full bakery, butcher shop, seafood counter and deli section. Take-out foods featuring specially prepared entrees, a large salad bar and the choice of hot soups are immediately available for our customers on-the-go.

The stores, each measuring about 60,000 square feet, offer still other attractions: full-service pharmacy, floral department, video rentals, and on-site bank branches. These services and amenities under one roof are so convenient that many customers are finding that when they visit A&P to restock the pantry, they can also take care of other weekly errands all in one place.

More

Variety

Discounts

Local Produce

Bonus Savings

Drug Stores

Friendly Service

Express Lanes

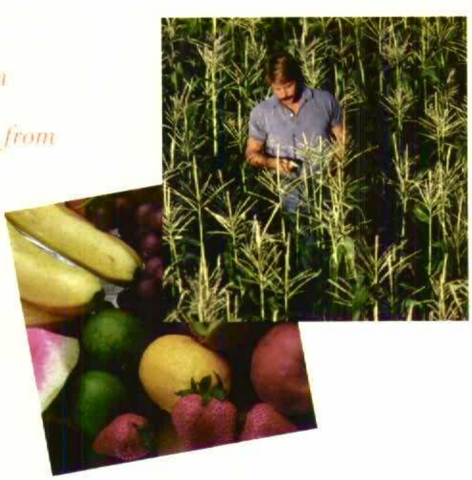
New Stores

"Save More Ways" is a new advertising theme that covers weekly specials, low prices everyday, America's Choice values, and special discounts and savings from our frequent shopper card programs.

SUPER fresh BONUS SAVINGS club™

doing MORE *for you...*

Produce is the signature department in our stores, including over 400 fresh items. "The Farm" has local produce, an organically grown selection and variety from all over the world.



Our Super Fresh stores in the mid-Atlantic states have often pioneered some of the Company's more successful initiatives. The Belair, Maryland, store was one of the first to introduce the concept of an enlarged produce department, a program that has now been expanded to more than 400 stores across all A&P banners. The new produce format features an outdoor country look, regional specialties, organic items, and local produce when available.

Super Fresh serves the Philadelphia, Baltimore, Washington, D.C., and Virginia markets. It was the first of A&P's operations to install automated scanners in check-out counters and was the first group to introduce our Bonus Savings Club's frequent shopper program. Through this program, shoppers receive a Bonus Savings Card that qualifies them for discounts on designated items while doubling as a check-cashing card. The frequent shopper program has since been adopted by all of our groups as an effective approach for building customer loyalty.

More

"Added Benefits"

Bakeries

Savings Time

24-Hour Stores

Ethnic Foods

Services

Community Programs

Senior Discounts

Computerized information for recipes and menu planning is just one of the many customer services offered at Farmer Jack stores in the metro Detroit market.

doing MORE *for you...*

FARMER JACK

kohl's

Our midwest stores excel in quality perishable departments. Kohl's in Wisconsin emphasizes dairy, produce, and bakery specialties.

Our Kohl's and Farmer Jack stores continue to meet the needs of the markets they serve. For example, most of our 97 Farmer Jack stores in Michigan operate around-the-clock to accommodate third-shift workers in the auto plants. These stores also specialize in ethnic foods for urban customers. Nine more Farmer Jack supermarkets are planned to open in 1996.

As part of the Bonus Saving Club, Farmer Jack and Kohl's provide an "Added Benefits" marketing program that enables customers to obtain discounts on goods and services at other local merchants such as furniture and music stores, opticians and auto and truck rental agencies. In addition, these stores are committed to the communities they serve, providing customers with discounted tickets to local attractions such as Greenfield Village and the Dearborn Museum.

More

Food Basics

Dominion Stores

Low Prices

Pharmacies

Come-back

Profit Growth

Core Supermarkets

Market Share

Food Basics, our new limited assortment, low-price format in Ontario, meets our competition head on. These produce-oriented discount stores answer a customer need in Canada.

As food shoppers in Ontario have been pleased to discover, the phrase "Getting Down To Basics," translates into the reality of more than 13 Food Basics stores already in operation, with many more soon to open. These limited-assortment, low-priced stores are rapidly emerging as an answer to tight family food budgets. They represent the Company's come-back solution to low-cost competitors in Canada.

Sharing the limelight with Food Basics, the Company's A&P, Super Fresh and Dominion supermarkets in Canada offer a wide range of food products, produce and perishables, along with pharmacies in core locations. In Ontario we are planning to add one new store, while converting or remodeling a number of others this year. Our Canadian operation returned to profitability in fiscal 1995, and it is strongly on track to rebuild market share.

Dominion stores centered in Toronto and A&P/Super Fresh in suburban outlying areas are core supermarkets geared to specific markets. Together with Food Basics they provide a versatile format mix for the Ontario market.

More

Prices Going Down

Community Support

Ethnic Specialties

Value

Express Service

"Power Buys"

Remodeling

Delicatessens

Waldbaum's supermarkets have a special tradition in New York. Their new marketing campaign emphasizing lower prices has created strong customer response.

Waldbaum's is well-known for its specialty foods and ethnic flair. Its New York Delis are legend.

The Waldbaum's chain of over 91 supermarkets in New York City, Long Island, and Westchester County, New York, is particularly noted for its specialty ethnic food and competitive pricing. As part of its new marketing efforts, the chain's management emphasizes "Power Buys" from distributors that enable Waldbaum's to "buy better and sell cheaply."

Waldbaum's commitment to ethnic communities is embodied by its distribution of a calendar for the Jewish New Year of 5756. The chain is also known for its support of fund-raising events to benefit various causes, such as cystic fibrosis and the Girl Scouts of Long Island.

Following extensive remodeling of a number of its stores, the chain plans to open three new supermarkets this year and four more in subsequent years. In addition, Waldbaum's expects to have in place a program of "back door deliveries" by suppliers that will significantly reduce costs by eliminating the need for warehousing merchandise.

doing MORE *for you...* the Food Emporium

Food Emporium continues to be the supermarket of choice for discriminating shoppers in Manhattan and suburban New York locations where quality and service are foremost.

In the wake of its greatly successful Trump Tower store opening in 1994, Food Emporium last year opened a new supermarket in Hastings, New York, and converted two former A&P locations in other upscale suburban areas. The 34-store chain, located in affluent New York City neighborhoods and suburban communities, offers distinctive varieties of quality domestic and imported food products selected for their appeal to discriminating customers.

Features of Food Emporium include on-site bakeries in well over half the stores; chefs who preside over the prepared dishes in larger locations; and expanded deli and iced seafood sections throughout the system. In the interest of "doing MORE for you," the stores take special pride in customer service, with baggers stationed at the end of every check-out line, and home delivery provided in the city. Most locations are open 24 hours for additional customer convenience.

More

Organic Foods

Prepared Foods

Imports

Bakeries

Baggers

Chefs

Home Delivery

Locations

OPERATING RESULTS

Fiscal 1995 Compared with 1994

Sales for fiscal 1995 were $10.1 billion, a net decrease of $231 million or 2.2% when compared to fiscal 1994 sales of $10.3 billion. U.S. sales decreased $176 million or 2.1% compared to fiscal 1994. U.S. same store sales, which include replacement stores, were down 0.2% from the prior year. In Canada, sales of $1.7 billion were $55 million or 3.1% below fiscal 1994. Canada same store sales, which include replacement stores, were down 1.6% from the prior year.

During fiscal 1995, the Company opened 27 new supermarkets and 3 new liquor stores, remodeled or expanded 76 stores, and closed 124 stores, of which 6 were converted to Food Basics Franchisee stores in Canada, and 8 in the Rhode Island market which were sold to Edwards Super Food Stores in the first quarter of fiscal 1995. The Company recorded sales to the Food Basics Franchisees of $6 million in fiscal 1995. The Company closed 190 stores, excluding replacement stores, since the beginning of fiscal 1994. The store closures, excluding replacement stores, since the beginning of fiscal 1994 reduced comparative sales by approximately $422 million or 4.1% in fiscal 1995. The opening of 33 new stores, excluding 19 stores that replaced 21 older, outmoded stores, since the beginning of fiscal 1994 added approximately $219 million or 2.1% to sales in fiscal 1995. Same store sales, including replacement stores, for fiscal 1995 decreased 0.5% from the prior year. Average weekly sales per store were approximately $179,600 in fiscal 1995 versus $173,000 in fiscal 1994 for a 3.8% increase.

Gross margin as a percent of sales increased 0.6% to 29.1% for the current year from 28.5% for the prior year resulting primarily from increased gross margin rates in both the U.S. and Canada partially offset by increased promotional price reductions in the U.S. The gross margin dollar decrease of $8 million is primarily the result of a decrease in sales volume which had an impact of decreasing margin by approximately $69 million, partially offset by an increase in gross margin rates of $58 million and an increase in the Canadian exchange rate of $3 million. The U.S. gross margin decreased $17 million principally as a result of decreased sales volume which resulted in margins decreasing $50 million partially offset by an increase in gross margin rates of $33 million. In Canada, gross margin increased $9 million, primarily resulting from the effect of an increase in gross margin rates of $25 million and a higher Canadian exchange rate resulting in an increase of $3 million, offset by sales volume declines which impacted margins by $19 million.

Store operating, general and administrative expense of $2.8 billion in fiscal 1995 declined by approximately $90 million from fiscal 1994. The fiscal 1994 store operating, general and administrative expense includes charges of $27 million for employee buy-out costs incurred as a result of new labor agreements entered into in Canada and $17 million to cover the cost of closing 13 non-Miracle stores in Canada. As a percent of sales, store operating, general and administrative expense for fiscal 1995 decreased to 27.6% from 27.8% for the prior year. U.S. expenses decreased $4 million, principally as a result of lower store labor costs on reduced sales volume and reduced advertising costs. Canadian expenses decreased $86 million, as a result of the charges noted above of $27 million and $17 million recorded in fiscal 1994, coupled with reduced store labor costs, reduced occupancy costs, and a decrease in advertising costs.

Included under the Company's 1995 year-end balance sheet captions "Other accruals" and "Other non-current liabilities" are amounts totaling approximately $23 million associated with store closing liabilities. During fiscal 1995 approximately $20 million was charged against the store closing reserve.

During fiscal 1994, the Company recorded a charge of $127 million representing the write-off of $50 million of goodwill and the write-down of $77 million of fixed assets relating to Miracle Food Mart ("Miracle") stores which were expected to continue to generate operating losses.

As of February 24, 1996, based on current information, the Company has no reasonable basis to believe that there has been any further impairment of its existing goodwill. There is currently no goodwill recorded relating to the Canadian operations.

Interest expense increased $0.2 million from the previous year, primarily due to increased Canadian borrowings and an increase in average interest rates. U.S. interest expense decreased from the previous year, as a result of decreased borrowings and a decrease in average interest rates on short-term borrowings.

Income before taxes and cumulative effect of accounting change for fiscal 1995 was $81 million as compared to a loss of $129 million in fiscal 1994. The fiscal 1994 loss included Canadian charges for the write-off of goodwill and long-lived assets of $127 million, the employee termination/reassignment program of $27 million and the provision for store closings of $17 million.

Income before taxes and cumulative effect of accounting change for U.S. operations for fiscal 1995 was $73 million as compared to $81 million for fiscal 1994, or an 8.9% decrease. For Canadian operations, income before taxes and cumulative effect of accounting change for fiscal 1995 was $8 million as compared to a loss of $210 million for fiscal 1994, resulting in an increase of $218 million.

During fiscal 1994, the Company recorded a valuation allowance of $119.6 million against Canadian deferred tax assets, which, based upon current available evidence, are not likely to be realized. These deferred tax assets result from tax loss carryforwards, fiscal 1994 operating losses and deductible temporary differences arising from the Canadian write-off of goodwill and long-lived assets.

The Company historically provided U.S. deferred taxes on the undistributed earnings of the Canadian operations. During fiscal 1994, the Company made an election to permanently reinvest prior years' earnings and, accordingly, reversed deferred tax liabilities of $27 million associated with the undistributed earnings of the Canadian operations. Further, this decision also resulted in a direct charge to equity of approximately $20 million to eliminate the deferred tax asset related to the Cumulative Translation Adjustment.

During fiscal 1995, since the Canadian operations generated pretax earnings, the Company reversed approximately $3.4 million of the valuation allowance. Although Canada generated pretax earnings in fiscal 1995, the Company was unable to conclude that realization of such deferred tax assets was more likely than not due to pretax losses experienced by Canada in prior years. Accordingly, at February 24, 1996 the Company is continuing to fully reserve its Canadian net deferred tax assets. The valuation allowance will be adjusted when and if, in the opinion of Management, significant positive evidence exists which indicates that it is more likely than not that the Company will be able to realize the Canadian deferred tax assets.

In addition, during fiscal 1995 the Company recorded a $6.5 million credit relating to a refund of previously paid taxes in Canada.

Effective February 27, 1994, the Company adopted Statement of

Financial Accounting Standards No. 112 "Employers' Accounting for Postemployment Benefits" ("SFAS 112"). As a result, in fiscal 1994 the Company recorded an after-tax charge of $5 million or $.13 per share as the cumulative effect of this change on prior years.

Net income for fiscal 1995 was $57 million or $1.50 per share as compared to a net loss for fiscal 1994 of $172 million or $4.49 per share. Fiscal 1995 net income included the $6.5 million Canadian tax refund. The fiscal 1994 net loss included after-tax Canadian charges for the write-off of goodwill and long-lived assets of $127 million, the employee termination/reassignment program of $27 million, the provision for store closings of $17 million, a reduction of deferred tax benefits previously recorded of $28 million and the cumulative effect of adopting SFAS 112 of $5 million, offset by the reversal of deferred tax liabilities of $27 million in the U.S. associated with the undistributed earnings of the Canadian operations.

Excluding the U.S. reversal of the deferred tax liabilities associated with undistributed earnings of $27 million recorded in fiscal 1994, net income from U.S. operations decreased from $50 million or $1.31 per share in fiscal 1994 to $44 million or $1.15 per share in fiscal 1995. Excluding the above fiscal 1994 Canadian charges and the fiscal 1995 Canadian tax refund, fiscal 1994 would have resulted in a net loss from Canadian operations of $45 million or $1.17 per share and fiscal 1995 would have resulted in net income of $7 million or $.18 per share for a $52 million increase.

Fiscal 1994 Compared with 1993

Sales for fiscal 1994 were $10.3 billion, a net decrease of $52 million or 0.5% when compared to fiscal 1993 sales of $10.4 billion. U.S. sales increased $75 million or 0.9% compared to fiscal 1993 despite the estimated impact of a fiscal 1993 competitors' strike in the New York metropolitan market which had a favorable effect on fiscal 1993 sales of approximately 0.3%. In the U.S., same store sales, which include replacement stores, were up 1.4% excluding the estimated effect of last year's competitors' strike.

Canadian sales were $127 million or 6.6% below fiscal 1993. A lower fiscal 1994 Canadian exchange rate accounted for $110 million of this sales decline. Canada's fiscal 1994 sales increased approximately $122 million due to a labor strike in fiscal 1993 in 63 Miracle stores which caused the stores to be closed for the last 14 weeks of the prior fiscal year. Excluding the impact of a lower Canadian exchange rate and the strike closure of 63 Miracle stores for 14 weeks of fiscal 1993, Canadian same store sales were down 7.0% mainly due to the slow sales recovery of the Miracle stores following the settlement of the labor strike on the last day of fiscal 1993.

The Company opened 16 new supermarkets and 6 new liquor stores, remodeled and enlarged 55 stores and closed 87 stores during fiscal 1994. The opening of 38 new stores, excluding replacement stores, since the beginning of fiscal 1993 and the acquisition of Big Star stores in fiscal 1993 added approximately 3.1% to comparable sales in fiscal 1994. The closure of 171 stores, excluding replacement stores, since the beginning of fiscal 1993 reduced comparative sales by approximately 3.1%. Average weekly sales per store were approximately $173,000 in fiscal 1994 versus $167,000 in fiscal 1993 for a 3.6% increase.

During fiscal 1994, in an effort to combat the competitive situation in the Metro Atlanta area, the Company closed 21 Atlanta stores and completed the launching of its frequent shopper program which began late in fiscal 1993. As a result, sales for the Metro Atlanta area improved, with same store sales for the remaining stores up 7.0% over the prior year. However, in Atlanta, the Company is still experiencing the influx of new competitors, and the expected continuing high level of competitive openings and pricing activity pose a threat to the sales and profitability of the Company's Atlanta operations.

Gross margin as a percent of sales for both fiscal 1994 and 1993 approximated 28.5%. The gross margin dollars decrease of $15 million is a result of a decline in the Canadian exchange rate of $29 million and a decrease in gross margin rates, principally in Canada, of $3 million partially offset by an increase in gross margin volume, principally in the U.S., of $17 million. The U.S. gross margin dollars increased $51 million, as a result of an increase in gross margin rates from 28.3% to 28.7% and the impact of the aforementioned volume increase. The Canadian gross margin dollars decreased $66 million, resulting from a decrease in gross margin rates from 29.3% to 27.7%, the impact of the exchange rate decline and a volume decline.

Store operating, general and administrative expense of $2.9 billion in fiscal 1994 declined slightly from fiscal 1993. As a percent of sales, such costs approximated 27.8% in both fiscal 1994 and 1993. U.S. expenses increased $15 million, principally related to depreciation, outside services, store pre-opening and labor costs. Canadian expenses decreased $31 million primarily due to lower store labor costs on reduced sales volume, reduced occupancy costs, a decrease in expenses related to prior year's Miracle strike and the favorable impact of the decline in the Canadian exchange rate. The Canadian decrease was partially offset by the cost of the termination/reassignment program which was $27 million in fiscal 1994, compared to an early retirement program charge of $17 million in fiscal 1993. The termination/reassignment program was implemented in conjunction with the Company's decision to convert a significant number of its Ontario-based stores to a low-cost format. In addition, the Company recorded a $17 million charge in fiscal 1994 to cover the cost of closing 13 non-Miracle stores in fiscal 1995.

Included under the Company's 1994 year-end balance sheet captions "Other accruals" and "Other non-current liabilities" are amounts totaling approximately $43 million associated with store closing liabilities, which includes the $17 million recorded in fiscal 1994 for Canada as discussed above. During fiscal 1994, approximately $15 million was charged against these reserves, of which approximately $14 million related to the realignment of store operations reserve established in fiscal 1992. See "Realignment of Store Operations" footnote for further discussion.

During the third quarter of fiscal 1994 the Company recorded a charge of $127 million representing the write-off of $50 million of goodwill and the write-down of $77 million of fixed assets relating to Miracle stores which continue to generate operating losses.

In November 1993, the Miracle store employees went on strike for a 14-week period. Since Canadian labor laws preclude the replacement of striking workers, the strike resulted in a complete shutdown of all of the Miracle stores. The strike was resolved on February 20, 1994 and the Company paid $17 million in labor settlement costs. These stores were re-opened for business commencing February 25, 1994. Following the strike, Management instituted extensive and costly promotional campaigns designed to assist in its goal of re-establishing pre-strike sales levels. When the Miracle strike ended, Management determined that the goodwill balance associated with Miracle stores would be recoverable over its remaining life. This conclusion was based upon operating projections which comprehended (i) the historical performance and market shares of the Miracle stores in pre-strike periods, (ii) the labor savings projected to be realized as a result of the favorable terms of the settlement (principally wage and benefit concessions and the ability to use newly hired part-time employees after a certain level of full and part-time union employment had been realized), and (iii) the regaining of pre-strike sales and operating

margins which was anticipated to occur because of the implementation of extensive promotional programs in the Miracle stores.

Management continued to assess the performance of the Miracle stores during the post-strike period. The anticipated recovery of Miracle sales and operating margins was not yet realized through June 18, 1994, the end of the Company's first fiscal quarter or September 10, 1994, the end of the Company's second fiscal quarter. Through the second quarter same store sales and margins had declined significantly when compared to the prior year pre-strike levels. At that time, Management concluded that the following factors were the principal reasons why the recovery had not yet been realized: (i) increased price competition from Miracle competitors in response to the promotional activities implemented by Miracle, (ii) the inability to yet utilize part-time employees (a key element of the strike settlement which required increased sales levels to be effective) and (iii) the continuing effects of the complete shutdown during the strike. Management continued to believe that these negative trends were temporary and that more time was required to determine the effectiveness of the promotional programs and the changed competitive environment. Management continued to closely monitor the operating performance and sales levels during the third quarter.

Despite the extensive promotional programs, in the period through December 3, 1994, the operating performance of Miracle did not improve and the negative sales trends and deteriorating margin levels continued. Management believed that the negative results which occurred subsequent to the strike were no longer temporary and, accordingly, prior operating cash flow projections of Miracle were revised. These revised projections indicated that the Miracle goodwill balance would not be recovered over its remaining life and the full amount thereof should be written-off.

Further, the levels of sales and operating cash flow achieved through the first nine months of fiscal 1994, coupled with the reduced expectations of future Miracle operations, indicated that Miracle's operating results would not be sufficient to absorb the depreciation and amortization of certain of its operating fixed assets. In order to measure this impairment, the Company analyzed the projected operating performance of each store comprising the Miracle division and reflected the impairment of the fixed assets attributable to those stores which the Company believes will continue to generate an operating loss before taking into account depreciation and amortization expenses. The Company has no current plans to close Miracle stores despite their negative performance and believes that the total Canadian operations will be able to absorb their projected fixed costs. The Company also believes that the fixed assets related to the Canadian operations exclusive of Miracle are recoverable from operations over their remaining useful lives.

Interest expense increased in fiscal 1994 when compared to fiscal 1993 primarily due to increased U.S. borrowings of $100 million in long-term Notes issued in January, 1994 and an increase in average interest rates on short-term borrowings.

Income (loss) before taxes and cumulative effect of accounting change for fiscal 1994 was a loss of $129 million as compared to income of $7 million in fiscal 1993. The fiscal 1994 loss included Canadian charges for the write-off of goodwill and long-lived assets of $127 million, the employee termination/reassignment program of $27 million and the provision for store closings of $17 million. The fiscal 1993 income included a Canadian charge of $17 million for an employee early retirement program and an estimated $23 million cost impact of the Canadian labor strike.

Income before taxes and cumulative effect of accounting change for U.S. operations for fiscal 1994 was $81 million as compared to $52 million for fiscal 1993, or a 54% increase. Excluding the above Canadian charges, loss before taxes and cumulative effect of accounting change for Canadian operations would have been $39 million for fiscal 1994 as compared to $5 million for fiscal 1993.

During fiscal 1994, the Company recorded a valuation allowance of $119.6 million against Canadian deferred tax assets, which, based upon current available evidence, are not likely to be realized. These deferred tax assets result from tax loss carryforwards, fiscal 1994 operating losses and deductible temporary differences arising from the Canadian write-off of goodwill and long-lived assets.

The Company historically provided U.S. deferred taxes on the undistributed earnings of the Canadian operations. During fiscal 1994, the Company made an election to permanently reinvest prior years' earnings and, accordingly, reversed deferred tax liabilities of $27 million associated with the undistributed earnings of the Canadian operations. Further, this decision also resulted in a direct charge to equity of approximately $20 million to eliminate the deferred tax asset related to the Cumulative Translation Adjustment.

Effective February 27, 1994, the Company adopted SFAS 112. As a result, the Company recorded an after-tax charge of $5 million or $.13 per share as the cumulative effect of this change on prior years.

Net loss for fiscal 1994 was $172 million or $4.49 per share as compared to net income for fiscal 1993 of $4 million or $.10 per share. The fiscal 1994 net loss included after-tax Canadian charges for the write-off of goodwill and long-lived assets of $127 million, the employee termination/reassignment program of $27 million, the provision for store closings of $17 million, a reduction of deferred tax benefits previously recorded of $28 million and the cumulative effect of adopting SFAS 112 of $5 million, offset by the reversal of deferred tax liabilities of $27 million in the U.S. associated with the undistributed earnings of the Canadian operations. The fiscal 1993 net income included an unfavorable after-tax effect of $14 million for the Miracle strike and a $10 million charge for the Miracle employee early retirement program.

Excluding the U.S. reversal of the deferred tax liabilities associated with undistributed earnings of $27 million, net income of U.S. operations increased over 50% from $33 million or $.86 per share in fiscal 1993 to $50 million or $1.31 per share in fiscal 1994. Excluding the above Canadian charges, fiscal 1994 would have resulted in a net loss from Canadian operations of $45 million or $1.17 per share as compared to $5 million or $.13 per share for fiscal 1993.

LIQUIDITY AND CAPITAL RESOURCES

The Company ended the 1995 fiscal year with working capital of $178 million compared to $97 million and $79 million at February 25, 1995, and February 26, 1994, respectively. The Company had cash and short-term investments aggregating $100 million at the end of fiscal 1995 compared to $129 million and $124 million at the end of fiscal 1994 and 1993, respectively.

In December 1995, the Company executed an unsecured five year $400 million U.S. credit agreement and a five year C$100 million Canadian credit agreement with a syndicate of banks, enabling it to borrow funds on a revolving basis. At the end of fiscal 1995, the Company had in excess of $375 million available in credit facilities, of which approximately $360 million are committed facilities. See "Indebtedness" footnote for further discussion.

On October 17, 1995, the Company's Canadian subsidiary, The Great Atlantic & Pacific Company of Canada, Ltd. ("A&P Canada"), issued

U.S. $75 million of unsecured, non-callable 7.78% Notes due November 1, 2000 guaranteed by the Company. The net proceeds from the issuance of these Notes were used to repay indebtedness under the Canadian subsidiary's revolving credit facility. In conjunction with the issuance of the U.S. $75 million Notes, A&P Canada entered into a five year cross-currency swap agreement expiring November 1, 2000. The cross currency swap agreement requires A&P Canada to make net payments to the counterparty based on a fixed interest differential on a semi-annual basis. The interest differential to be paid under the swap agreement is accrued over the life of the agreement as an adjustment to the yield of the 7.78% Notes and is recorded as interest expense. The Company is exposed to credit losses in the event of nonperformance by the counterparty to its currency swap. The Company anticipates, however, the counterparty will be able to fully satisfy their obligations under the contracts.

The Company's loan agreements and certain of its notes contain various financial covenants which require, among other things, minimum net worth and maximum levels of indebtedness and lease commitments. The Company was in compliance with all such financial covenants as of February 24, 1996.

During fiscal 1995, the Company funded its capital expenditures, debt repayments and cash dividends through internally generated funds combined with proceeds from bank borrowings.

U.S. bank borrowings were $95 million at February 24, 1996, as compared to $168 million at February 25, 1995. U.S. bank borrowings during fiscal 1995 were at an average interest rate of 6.4% compared to 5.4% in fiscal 1994.

Canadian bank and commercial paper borrowings were $54 million and $115 million at February 24, 1996, and February 25, 1995, respectively. Canadian bank and commercial paper borrowings during fiscal 1995 were at an average interest rate of 8.4% compared to 7.0% in fiscal 1994.

For fiscal 1995, capital expenditures totaled $236 million, which included 27 new supermarkets, 3 new liquor stores, 76 remodels and enlargements and 7 stores which were converted to Food Basics Franchisee stores in Canada, of which 6 were closed in fiscal 1995 and 1 was closed in fiscal 1994. The Company had originally planned capital expenditures of approximately $205 million including 25 new supermarkets and 2 new liquor stores, and approximately 51 remodels and expansions.

For fiscal 1996, the Company has planned capital expenditures of approximately $310 million and plans to open 39 new supermarkets and 1 new liquor store, remodel and expand 94 stores and convert approximately 40 stores to Food Basics Franchisee stores in Canada. It has been the Company's experience over the past several years that it typically takes 12 to 18 months after opening for a new store to recoup its opening costs and become profitable thereafter. Risks inherent in retail real estate investments are primarily associated with competitive pressures in the marketplace. From fiscal 1996 through fiscal 2000, the Company intends to improve the use of technology through scanning and other technological advances to improve customer service, store operations and merchandising and to intensify advertising and promotions. The Company currently expects to close approximately 70 stores in fiscal year 1996, of which approximately 20 will be converted to Food Basics Franchisee stores in Canada.

The Company plans to open approximately 50 new supermarkets in fiscal 1997 and approximately 50 new supermarkets per year thereafter for several years, with an attendant increase in square footage of approximately 3% per year, and to remodel an average of 50 stores per year. The Company's concentration will be on larger stores in the 50,000 to 65,000 square foot range. Costs of each project will vary significantly based upon size, marketing format, geographic area and development involvement required from the Company. The planned costs of these projects average $3.8 million for a new store and $1 million for a remodel or enlargement. Traditionally, the Company leases real estate and expends capital on leasehold improvements and store fixtures and fittings. Consistent with the Company's history, most new-store activity will be directed into those areas where the Company achieves its best profitability. Remodeling and enlargement programs are normally undertaken based upon competitive opportunities and usually involve updating a store to a more modern and competitive format.

At fiscal year end, the Company's existing senior debt rating was Baa3 with Moody's Investors Service and BB+ with Standard & Poor's Ratings Group. A change in either of these ratings could affect the availability and cost of financing.

The Company's current cash resources, together with cash generated from operations, will be sufficient for the Company's 1996 capital expenditure program, mandatory scheduled debt repayments and dividend payments throughout fiscal 1996.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In March 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"). SFAS 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used and for long-lived assets and certain indentifiable intangibles to be disposed of. SFAS 121 requires that (i) long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and (ii) long-lived assets and certain identifiable intangibles to be disposed of generally be reported at the lower of carrying amounts or fair value less cost to sell. The Company adopted the provisions of SFAS 121 during the fourth quarter of fiscal 1995. The adoption of SFAS 121 did not have an effect on the financial position or results of operations of the Company.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans. SFAS 123 encourages all entities to adopt a fair value based method of accounting for stock-based compensation plans in which compensation cost is measured at the date the award is granted based on the value of the award and is recognized over the employees' service period. However, SFAS 123 allows an entity to continue to use the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), with proforma disclosures of net income and earnings per share as if the fair value based method had been applied. APB 25 requires compensation expense to be recognized over the employees' service period based on the excess, if any, of the quoted market price of the stock at the date the award is granted or other measurement date, as applicable, over an amount an employee must pay to acquire the stock. SFAS 123 is effective for financial statements for fiscal years beginning after December 15, 1995. The Company plans to adopt SFAS 123 during fiscal 1996 and to continue to apply the methods prescribed by APB 25.

Statements of Consolidated Operations

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands, except per share figures)	Fiscal 1995	Fiscal 1994	Fiscal 1993
Sales	$10,101,356	$10,331,950	$10,384,077
Cost of merchandise sold	(7,166,119)	(7,388,495)	(7,425,578)
Gross margin	2,935,237	2,943,455	2,958,499
Store operating, general and administrative expense	(2,783,503)	(2,873,985)	(2,890,219)
Write-off of goodwill and long-lived assets	—	(127,000)	—
Income (loss) from operations	151,734	(57,530)	68,280
Interest expense	(73,143)	(72,972)	(63,318)
Interest income	2,501	1,054	1,599
Income (loss) before income taxes and cumulative effect of accounting change	81,092	(129,448)	6,561
Provision for income taxes	(23,868)	(37,138)	(2,602)
Income (loss) before cumulative effect of accounting change	57,224	(166,586)	3,959
Cumulative effect on prior years of change in accounting principle:			
Postemployment benefits	—	(4,950)	—
Net income (loss)	$ 57,224	$ (171,536)	$ 3,959
Earnings (loss) per share:			
Income (loss) before cumulative effect of accounting change	$ 1.50	$ (4.36)	$ .10
Cumulative effect on prior years of change in accounting principle:			
Postemployment benefits	—	(.13)	—
Net income (loss) per share	$ 1.50	$ (4.49)	$ .10

Statements of Consolidated Shareholders' Equity

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands)	Fiscal 1995	Fiscal 1994	Fiscal 1993
Common stock:			
Balance at beginning of year	$ 38,229	$ 38,229	$ 38,229
Balance at end of year	$ 38,229	$ 38,229	$ 38,229
Capital surplus:			
Balance at beginning of year	$ 453,475	$ 453,475	$ 453,475
Balance at end of year	$ 453,475	$ 453,475	$ 453,475
Cumulative translation adjustment:			
Balance at beginning of year	$ (49,227)	$ (26,103)	$ (12,809)
Exchange adjustment, (net of tax for fiscal 1993)	(1,709)	(3,317)	(13,294)
Elimination of deferred income tax asset (see "Income Taxes" footnote)	—	(19,807)	—
Balance at end of year	$ (50,936)	$ (49,227)	$ (26,103)
Retained earnings:			
Balance at beginning of year	$ 332,800	$ 529,179	$ 555,796
Net income (loss)	57,224	(171,536)	3,959
Cash dividends	(7,644)	(24,843)	(30,576)
Balance at end of year	$ 382,380	$ 332,800	$ 529,179
Treasury stock, at cost:			
Balance at beginning of year	$ (363)	$ (363)	$ (361)
Purchase of Treasury stock	—	—	(2)
Balance at end of year	$ (363)	$ (363)	$ (363)

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands)	February 24, 1996	February 25, 1995
ASSETS		
Current assets:		
Cash and short-term investments	$ 99,772	$ 128,930
Accounts receivable	205,133	205,619
Inventories	826,510	811,964
Prepaid expenses and other assets	52,687	47,218
Total current assets	1,184,102	1,193,731
Property:		
Land	129,567	117,508
Buildings	321,830	287,340
Equipment and leasehold improvements	2,084,609	2,080,103
Total-at cost	2,536,006	2,484,951
Less accumulated depreciation and amortization	(1,074,841)	(1,018,708)
	1,461,165	1,466,243
Property leased under capital leases	93,379	107,494
Property-net	1,554,544	1,573,737
Other assets	138,195	127,320
	$2,876,841	$2,894,788
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 13,040	$ 112,821
Current portion of obligations under capital leases	13,125	14,492
Accounts payable	452,257	447,081
Book overdrafts	157,022	157,521
Accrued salaries, wages and benefits	148,960	158,109
Accrued taxes	59,407	51,345
Other accruals	161,984	155,085
Total current liabilities	1,005,795	1,096,454
Long-term debt	650,169	612,473
Obligations under capital leases	129,887	146,400
Deferred income taxes	130,071	118,579
Other non-current liabilities	138,134	145,968
Shareholders' equity:		
Preferred stock-no par value; authorized-3,000,000 shares; issued-none		
Common stock-$1 par value; authorized-80,000,000 shares; issued 38,229,490 shares	38,229	38,229
Capital surplus	453,475	453,475
Cumulative translation adjustment	(50,936)	(49,227)
Retained earnings	382,380	332,800
Treasury stock, at cost, 9,157 shares	(363)	(363)
Total shareholders' equity	822,785	774,914
	$2,876,841	$2,894,788

See Notes to Consolidated Financial Statements.

Statements of Consolidated Cash Flows

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands)	Fiscal 1995	Fiscal 1994	Fiscal 1993
Cash Flows From Operating Activities:			
Net income (loss)	$ 57,224	$(171,536)	$ 3,959
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Write-off of goodwill and long-lived assets	—	127,000	—
Cumulative effect on prior years of change in accounting principle:			
Postemployment benefits	—	4,950	—
Depreciation and amortization	225,449	235,444	235,910
Deferred income tax provision (benefit) on income (loss) before cumulative effect of accounting change	9,496	20,836	(19,568)
(Gain) loss on disposal of owned property	(3,177)	(816)	1,032
(Increase) decrease in receivables	556	(15,197)	1,936
(Increase) decrease in inventories	(13,103)	34,048	12,928
Increase in prepaid expenses and other current assets	(573)	(1,341)	(7,981)
Increase (decrease) in accounts payable	3,944	(9,996)	(1,557)
Increase (decrease) in accrued expenses	(4,251)	1,295	46,292
Increase (decrease) in store closing reserves	(18,240)	2,012	(34,522)
Increase (decrease) in other accruals and other liabilities	16,518	(43,603)	(19,438)
Other operating activities, net	(11,873)	(1,756)	(5,385)
Net cash provided by operating activities	261,970	181,340	213,606
Cash Flows From Investing Activities:			
Expenditures for property	(236,139)	(214,886)	(267,329)
Proceeds from disposal of property	34,576	12,113	19,464
Acquisition of business, net of cash acquired	—	—	(42,948)
Net cash used in investing activities	(201,563)	(202,773)	(290,813)
Cash Flows From Financing Activities:			
Changes in short-term debt	25,598	(30,912)	12,410
Proceeds under revolving lines of credit and long-term borrowings	594,613	229,447	237,340
Payments on revolving lines of credit and long-term borrowings	(683,442)	(93,085)	(146,052)
Principal payments on capital leases	(17,953)	(15,923)	(18,876)
Increase (decrease) in book overdrafts	(1,075)	(37,720)	39,192
Cash dividends	(7,644)	(24,843)	(30,576)
Purchase of Treasury stock	—	—	(2)
Net cash provided by (used in) financing activities	(89,903)	26,964	93,436
Effect of exchange rate changes on cash and short-term investments	338	(837)	(2,113)
Net Increase (Decrease) in Cash and Short-term Investments	(29,158)	4,694	14,116
Cash and Short-term Investments at Beginning of Year	128,930	124,236	110,120
Cash and Short-term Investments at End of Year	$ 99,772	$128,930	$124,236

See Notes to Consolidated Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. The Company operates retail supermarkets in the United States and Canada. The U.S. operations are mainly in the Eastern part of the U.S. and certain parts of the Midwest. See the following footnotes for additional information on the Canadian Operations: Operations in Geographic Areas, Write-off of Goodwill and Long-Lived Assets, Income Taxes and Retirement Plans and Benefits.

Fiscal Year

The Company's fiscal year ends on the last Saturday in February. Fiscal 1995 ended February 24, 1996, fiscal 1994 ended February 25, 1995 and fiscal 1993 ended February 26, 1994. Fiscal 1995, fiscal 1994 and fiscal 1993 were each comprised of 52 weeks.

Common Stock

The principal shareholder of the Company, Tengelmann Warenhandelsgesellschaft, owned 53.98% of the Company's common stock as of February 24, 1996.

Cash and Short-term Investments

Short-term investments that are highly liquid with an original maturity of three months or less are included in cash and short-term investments and are deemed to be cash equivalents.

Inventories

Store inventories are valued principally at the lower of cost or market with cost determined under the retail method. Warehouse and other inventories are valued primarily at the lower of cost or market with cost determined on a first-in, first-out basis. Inventories of certain acquired companies are valued using the last-in, first-out method, which was their practice prior to acquisition.

Properties

Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Equipment and real property leased under capital leases are amortized over the lives of the respective leases or over their economic useful lives, whichever is less. Properties designated for sale are classified as current assets.

Pre-opening Costs

The costs of opening new stores are expensed in the year incurred.

Earnings (Loss) Per Share

Earnings (loss) per share is based on the weighted average number of common and dilutive common equivalent shares outstanding during the fiscal year which was 38,221,707 in fiscal 1995 and 38,220,333 in both fiscal 1994 and 1993. Stock options outstanding were considered common stock equivalents to the extent that they were dilutive.

Excess of Cost over Net Assets Acquired

The excess of cost over fair value of net assets acquired is amortized on a straight-line basis over forty years. At each balance sheet date, management reassesses the appropriateness of the goodwill balance based on forecasts of cash flows from operating results on an undiscounted basis. If the results of such comparison indicate that an impairment may be more likely than not, the Company will recognize a charge to operations at that time based upon the difference between the present value of the expected cash flows from future operating results (utilizing a discount rate equal to the Company's average cost of funds at that time) and the balance sheet value. The recoverability of goodwill is at risk to the extent the Company is unable to achieve its forecast assumptions regarding cash flows from operating results. At February 24, 1996, the Company estimates that the cash flows projected to be generated by the respective businesses on an undiscounted basis should be sufficient to recover the existing goodwill balance over its remaining life (see "Write-off of Goodwill and Long-Lived Assets" footnote).

Long-Lived Assets

Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121") was issued by the Financial Accounting Standards Board in March 1995. The Company adopted the provisions of SFAS 121 during the fourth quarter of fiscal 1995. SFAS 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable.

The Company has performed its review based upon groups of assets and the undiscounted estimated future cash flows from such assets and determined that the carrying value of such assets were recoverable from the respective cash flows.

The adoption of SFAS 121 did not have an effect on the financial position or results of operations of the Company.

Income Taxes

The Company provides deferred income taxes on temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

Current Liabilities

Under the Company's cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes and are classified as "Book overdrafts" in the balance sheet.

The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of $80 million and $81 million at February 24, 1996 and February 25, 1995, respectively, are included in the balance sheet caption "Accrued salaries, wages and benefits."

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at

the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying balance sheets include liabilities with respect to self-insured workers' compensation and general liability claims. The Company determines the required liability of such claims based upon various assumptions which include, but are not limited to, the Company's historical loss experience, industry loss standards, projected loss development factors, projected payroll, employee headcount and other internal data. It is reasonably possible that the final resolution of some of these claims may require significant expenditures by the Company in excess of its existing reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated.

Reclassifications
Certain reclassifications have been made to the prior years' financial statements in order to conform to the current year presentation.

INVENTORY

Approximately 28.0% of the Company's inventories are valued using the last-in, first-out ("LIFO") method. Such inventories would have been $14 million and $15 million higher at February 24, 1996 and February 25, 1995, respectively, if the retail and first-in, first-out methods were used. During fiscal 1995, the Company recorded a LIFO charge of approximately $2 million. During fiscal 1994 and 1993, the Company recorded a LIFO credit of approximately $2 million and $3 million, respectively. Liquidation of LIFO layers in the periods reported did not have a significant effect on the results of operations.

WRITE-OFF OF GOODWILL AND LONG-LIVED ASSETS

During the third quarter of fiscal 1994, the Company recorded a non-cash charge of $127 million reflecting $50 million for the write-off of goodwill related to the acquisition of Miracle Food Mart ("Miracle") stores in Canada and $77 million for the write-down of certain Miracle fixed assets. Miracle experienced a work stoppage for a 14-week period at the end of fiscal 1993. Under Canadian labor laws the stores were closed during this time period. The labor dispute was settled and the stores re-opened for business on February 25, 1994. The Company anticipated that the new labor agreement would have a positive impact on operating results assuming historical sales levels could be attained. Through the first half of fiscal 1994, the Company expended significant promotional efforts in order to regain its pre-strike sales levels. The sales performance through the first half of fiscal 1994 was disappointing and the Company continued to monitor Miracle's performance through the third quarter. Sales performance in the third quarter of fiscal 1994 continued to be negative when compared to pre-strike sales levels. The Company, no longer believing that Miracle's negative operating performance was temporary, revised its future expected cash flow projections. These revised projections indicated that the goodwill balance would not be recoverable over its remaining life. Further, these projections indicated that the operating results of Miracle would not be sufficient to absorb the depreciation and amortization of certain of its operating fixed assets. Accordingly, Miracle's goodwill balance was written-off and fixed assets relating to Miracle stores which were expected to continue to generate operating losses were written-down as of the end of the third quarter of fiscal 1994.

INDEBTEDNESS

Debt consists of:

(Dollars in thousands)	February 24, 1996	February 25, 1995
9 1/8% Notes, due January 15, 1998	$200,000	$200,000
7.70% Senior Notes, due January 15, 2004	200,000	200,000
7.78% Notes due November 1, 2000	75,000	—
Mortgages and Other Notes, due 1996 through 2014 (average interest rates at year end of 9.77% and 9.70%, respectively)	39,279	42,249
U.S. Bank Borrowings at 5.73% and 6.60%, respectively	95,000	168,000
Canadian Commercial Paper at 6.20% and 7.30%, respectively	7,977	21,085
Canadian Bank Borrowings at 6.03% and 8.70%, respectively	46,223	94,373
Less unamortized discount on 9 1/8% Notes	(270)	(413)
	663,209	725,294
Less current portion	(13,040)	(112,821)
Long-term debt	$ 650,169	$612,473

As of February 24, 1996, the Company has outstanding a total of $400 million of unsecured, non-callable public debt securities in the form of $200 million 9 1/8% Notes due January 15, 1998, and $200 million 7.70% Notes due January 15, 2004.

On October 17, 1995, the Company's Canadian subsidiary, The Great Atlantic & Pacific Company of Canada, Ltd. ("A&P Canada"), issued U.S. $75 million of unsecured, non-callable 7.78% Notes due November 1, 2000 guaranteed by the Company. The net proceeds from the issuance of these Notes were used to repay indebtedness under the Canadian subsidiary's revolving credit facility. In conjunction with the issuance of the U.S. $75 million Notes, A&P Canada entered into a five year cross-currency swap agreement expiring November 1, 2000. The cross-currency swap agreement requires A&P Canada to make net payments to the counterparty based on a fixed interest differential on a semi-annual basis. The interest differential to be paid under the swap agreement is accrued over the life of the agreement as an adjustment to the yield of the 7.78% Notes and is recorded as interest expense. The Company is exposed to credit losses in the event of nonperformance by the counterparty to its currency swap. The Company anticipates, however, the counterparty will be able to fully satisfy its obligations under the contracts.

In December 1995, the Company executed an unsecured five year $400 million U.S. credit agreement and a five year C$100 million Canadian credit agreement with a syndicate of banks enabling it to borrow funds on a revolving basis sufficient to refinance any outstanding short-term borrowings. In addition, the U.S. has lines of credit with banks amounting to $50 million. Borrowings under these U.S. credit agreements were $95 million and $168 million at February 24, 1996, and February 25, 1995, respectively. The Company pays a facility fee ranging from 3/16% to 1/2% per annum on the Company's revolving credit facility. A&P Canada has a C$100 million loan

facility with outstanding borrowings of C$74 million at February 24, 1996. In fiscal 1994, A&P Canada had a C$200 million loan facility with outstanding borrowings of C$161 million at February 25, 1995.

The Company's loan agreements and certain of its notes contain various financial covenants which require, among other things, minimum net worth and maximum levels of indebtedness and lease commitments. The Company was in compliance with all such financial covenants as of February 24, 1996.

The net book value of real estate pledged as collateral for all mortgage loans amounted to approximately $49 million as of February 24, 1996.

Combined U.S. bank and Canadian bank and commercial paper borrowings of $139 million as of February 24, 1996 are classified as non-current as the Company has the ability and intent to refinance these borrowings on a long-term basis.

Maturities for the next five fiscal years are: 1996-$13 million; 1997-$242 million; 1998-$44 million; 1999-$48 million; 2000-$78 million. Interest payments on indebtedness were approximately $54 million for fiscal 1995, $52 million for fiscal 1994 and $41 million for fiscal 1993.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments are as follows:

(Dollars in thousands)	February 24, 1996		February 25, 1995	
Liabilities	Carrying Amount	Fair Value	Carrying Amount	Fair Value
9 1/8% Notes, due January 15, 1998	$199,730	$209,440	$199,587	$202,000
7.70% Senior Notes, due January 15, 2004	$200,000	$198,360	$200,000	$174,000
7.78% Notes due November 1, 2000	$ 75,000	$ 75,713	$ —	$ —
Total Indebtedness	$663,209	$671,992	$725,294	$701,707

Fair value for the public debt securities is based on quoted market prices. With respect to all other indebtedness, Company management has evaluated such debt instruments and has determined, based on interest rates and terms, that the fair value of such indebtedness approximates carrying value at February 24, 1996, and February 25, 1995. As of February 24, 1996, and February 25, 1995, the carrying values of cash and short-term investments, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments.

At February 24, 1996, the fair value of the cross-currency swap agreement was approximately $0.9 million. The fair value was determined by the counterparty which is a widely recognized investment banker.

As of the end of fiscal 1995, the Company holds equity securities of both common and cumulative preferred stock in Isosceles PLC which were written-off in their entirety during fiscal 1992. There are no quoted market prices for these securities and it is not practicable, considering the materiality of these securities to the Company, to obtain an estimate of their fair value. The Company believes that the fair value for these securities is zero based upon Isosceles' current and prior year results.

LEASE OBLIGATIONS

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases and certain store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company also leases some store equipment and trucks. The consolidated balance sheets include the following:

(Dollars in thousands)	February 24, 1996	February 25, 1995
Real property leased under capital leases	$206,543	$238,906
Equipment leased under capital leases	—	663
	206,543	239,569
Accumulated amortization	(113,164)	(132,075)
	$ 93,379	$107,494

The Company did not enter into any new capital leases during fiscal 1995 and 1994. The Company entered into $2 million of new capital leases during fiscal 1993. Interest paid as part of capital lease obligations was approximately $18, $20 and $22 million in fiscal 1995, 1994 and 1993, respectively.

Rent expense for operating leases consists of:

(Dollars in thousands)	Fiscal 1995	Fiscal 1994	Fiscal 1993
Minimum rentals	$154,439	$154,488	$151,289
Contingent rentals	5,890	6,619	6,883
	$160,329	$161,107	$158,172

Future minimum annual lease payments for capital leases and noncancelable operating leases in effect at February 24, 1996 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established.

(Dollars in thousands) Fiscal	Capital Leases Real Property	Operating Leases
1996	$ 29,685	$ 153,329
1997	27,740	145,958
1998	26,384	137,857
1999	24,237	129,399
2000	23,065	121,499
2001 and thereafter	130,532	1,072,075
	261,643	$1,760,117
Less executory costs	(2,485)	
Net minimum rentals	259,158	
Less interest portion	(116,146)	
Present value of net minimum rentals	$143,012	

INCOME TAXES

The components of income (loss) before income taxes and cumulative effect of accounting change are as follows:

(Dollars in thousands)	Fiscal 1995	Fiscal 1994	Fiscal 1993
United States	$73,364	$ 80,509	$ 52,280
Canadian	7,728	(209,957)	(45,719)
Total	$81,092	$(129,448)	$ 6,561

The provision for income taxes before cumulative effect of accounting change consists of the following:

(Dollars in thousands)	Fiscal 1995	Fiscal 1994	Fiscal 1993
Current:			
Federal	$15,129	$ 8,577	$13,500
Canadian	(5,622)	2,687	5,744
State and local	4,865	5,038	2,926
	14,372	16,302	22,170
Deferred:			
Federal	9,387	(9,922)	2,723
Canadian	3,448	(88,948)	(22,486)
State and local	109	114	195
Canadian valuation allowance	(3,448)	119,592	—
	9,496	20,836	(19,568)
	$23,868	$37,138	$ 2,602

The deferred income tax provision (benefit) results primarily from the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws, Canadian net operating tax loss carryforwards and the Canadian valuation allowance.

The Canadian deferred income tax benefit for fiscal 1994 relates primarily to net operating tax loss carryforwards, the write-off of goodwill and certain long-lived assets and other temporary differences associated with the Company's operations in Canada. Management has assessed the likelihood of realizing the Canadian net deferred income tax assets and, based on all available evidence, expects it is not likely that such assets will be realized. Accordingly, during the third quarter of fiscal 1994, the Company recorded a valuation allowance to reserve for previously recognized deferred tax benefits and continued through the remainder of fiscal 1994 to provide a valuation allowance against its deferred income tax benefits. At February 25, 1995, a valuation allowance existed for the entire amount of net deferred income tax assets related to Canada. During fiscal 1995, since the Canadian operations generated pretax earnings, the Company reversed approximately $3.4 million of the valuation allowance. Although Canada generated pretax earnings in fiscal 1995, the Company was unable to conclude that realization of such deferred tax assets was more likely than not due to pretax losses experienced by Canada in prior years. Accordingly, at February 24, 1996, the Company is continuing to fully reserve its Canadian net deferred tax assets. The valuation allowance will be adjusted when and if, in the opinion of Management, significant positive evidence exists which indicates that it is more likely than not that the Company will be able to realize the Canadian deferred tax assets.

The Company historically provided U.S. deferred taxes on the undistributed earnings of the Canadian operations. During fiscal 1994, the Company made an election to permanently reinvest prior years' earnings and, accordingly, reversed deferred tax liabilities of $27 million associated with the undistributed earnings of the Canadian operations. Further, in conjunction with this decision, the Company recorded a direct charge to equity of approximately $20 million to eliminate the deferred tax asset related to the Cumulative Translation Adjustment.

The Company's Canadian net operating tax loss carryforwards of approximately $192 million will expire between February 1999 and February 2003.

The income tax provision recorded in fiscal 1993 reflects the increase in the corporate tax rate of 1%, partially offset by retroactive targeted jobs tax credits as prescribed by the Omnibus Budget Reconciliation Act of 1993.

A reconciliation of income taxes at the 35% federal statutory income tax rate for fiscal 1995, 1994 and 1993 to income taxes as reported is as follows:

(Dollars in thousands)	Fiscal 1995	Fiscal 1994	Fiscal 1993
Income taxes computed at federal statutory income tax rate	$28,382	$(45,307)	$ 2,296
Effect of 1% statutory rate change	—	—	2,519
Targeted jobs tax credits	—	(1,300)	(1,656)
State and local income taxes, net of federal tax benefit	3,233	3,348	2,031
Tax rate differential relating to Canadian operations	(4,879)	(12,775)	(3,261)
Canadian valuation allowance	(3,448)	119,592	—
Goodwill	580	580	673
Reduction of tax liabilities associated with undistributed earnings	—	(27,000)	—
Income taxes, as reported	$23,868	$ 37,138	$ 2,602

The tax rate differential relating to Canadian operations in the above table includes a $6.5 million benefit related to a refund of previously paid Canadian taxes.

Income tax payments for fiscal 1995, 1994 and 1993 were approximately $19, $12 and $15 million, respectively.

The components of net deferred tax assets (liabilities) are as follows:

(Dollars in thousands)	February 24, 1996	February 25, 1995
Current assets:		
Insurance reserves	$ 27,372	$ 22,976
Other reserves	8,172	11,240
Lease obligations	1,994	2,090
Pension obligations	11,137	9,331
Miscellaneous	4,968	5,033
	53,643	50,670
Current liabilities:		
Inventories	(15,172)	(15,382)
Health and Welfare	(10,007)	(10,071)
Miscellaneous	(2,678)	(2,165)
	(27,857)	(27,618)
Valuation allowance	(2,660)	(4,706)
Deferred income taxes included in prepaid expenses and other assets	$ 23,126	$ 18,346
Non-current assets:		
Alternative minimum tax credits	$ —	$ 23,500
Isosceles investment	42,617	42,617
Fixed assets	10,129	14,504
Other reserves	7,191	14,038
Lease obligations	20,519	21,228
Canadian loss carryforwards	85,494	78,709
Insurance reserves	8,820	8,400
Accrued postretirement and postemployment benefits	28,569	27,798
Miscellaneous	17,727	17,365
	221,066	248,159
Non-current liabilities:		
Fixed assets	(193,432)	(204,674)
Pension obligations	(20,619)	(17,552)
Miscellaneous	(25,800)	(29,626)
	(239,851)	(251,852)
Valuation allowance	(111,286)	(114,886)
Deferred income taxes	$(130,071)	$(118,579)

RETIREMENT PLANS AND BENEFITS

Defined Benefit Plans

The Company provides retirement benefits to certain non-union and some union employees under various defined benefit plans. The Company's defined benefit pension plans are non-contributory and benefits under these plans are generally determined based upon years of service and, for salaried employees, compensation. The Company funds these plans in amounts consistent with the statutory funding requirements.

The components of net pension cost are as follows:

(Dollars in thousands)	Fiscal 1995	Fiscal 1994	Fiscal 1993
Service cost	$ 9,340	$11,182	$10,665
Interest cost	23,976	22,858	22,997
Actual return on plan assets	(42,724)	(17,448)	(61,730)
Net amortization and deferral	16,362	(9,246)	35,816
Net pension cost	$ 6,954	$ 7,346	$ 7,748

The Company's U.S. defined benefit pension plans are accounted for on a calendar year basis while the Company's Canadian defined benefit pension plans are accounted for on a fiscal year basis. The majority of plan assets is invested in listed stocks and bonds. The funded status of the plans is as follows:

	1995		1994	
(Dollars in thousands)	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Accumulated benefit obligation:				
Vested	$267,391	$ 36,396	$212,257	$ 41,243
Nonvested	3,393	1,776	3,218	1,119
	$270,784	$ 38,172	$215,475	$ 42,362
Projected benefit obligation	$279,667	$ 40,324	$224,720	$ 44,012
Plan assets at fair value	333,100	16,752	270,939	25,368
Excess (deficiency) of assets over projected benefit obligation	53,433	(23,572)	46,219	(18,644)
Unrecognized net transition (asset) obligation	(8,097)	(78)	(7,248)	218
Unrecognized net (gain) loss from experience differences	(9,271)	2,649	(9,232)	(252)
Unrecognized prior service cost	3,357	4,115	3,609	3,808
Additional minimum liability	—	(4,614)	—	(2,522)
Prepaid pension asset (pension liability)	$ 39,422	$(21,500)	$ 33,348	$(17,392)

During the year ended February 25, 1995, the Company's Canadian subsidiary and the United Food & Commercial Workers International Union, Locals 175 and 633, entered into an agreement which will result in the amalgamation of three of the Company's Canadian defined benefit pension plans with the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), effective July 1, 1994, subject to the approval of the CCWIPP trustees and the appropriate regulatory bodies. Under the terms of this agreement, CCWIPP will assume the assets and defined benefit liabilities of the three pension plans and the Company will be required to make defined contributions to CCWIPP based upon hours worked by its employees who are members of CCWIPP. The Company expects that the necessary approvals will be received by June 1996. At February 24, 1996, prepaid pension assets of approximately $13 million related to the aforementioned plans are included in the above table.

Actuarial assumptions used to determine year-end plan status are as follows:

	1995		1994	
	U.S.	Canada	U.S.	Canada
Discount rate	7.00%	8.50%	8.50%	9.50%
Weighted average rate of compensation increase	4.00%	4.00%	5.50%	4.00%
Expected long-term rate of return on plan assets	8.00%	8.80%	8.50%	9.25%

The impact of the changes in the actuarial assumptions has been reflected in the funded status of the pension plans and the Company believes that such changes will not have a material effect on net pension cost for fiscal 1996.

Defined Contribution Plans

The Company maintains a defined contribution retirement plan to which the Company contributes 4% of eligible participants' salaries and a savings plan to which eligible participants may contribute a percentage of eligible salary. The Company contributes to the savings plan based on specified percentages of the participants' eligible contributions. Participants become fully vested in the Company's contributions after 5 years of service. The Company's contributions charged to operations for both plans were approximately $11 million in each of the three fiscal years in the period ended February 24, 1996.

The Company participates in various multi-employer union pension plans which are administered jointly by management and union representatives and which sponsor most full-time and certain part-time union employees who are not covered by the Company's other pension plans. The pension expense for these plans approximated $38 million in both fiscal 1995 and 1993 and $39 million in fiscal 1994. The Company could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans. At this time, the Company has not established any liabilities because such withdrawal from these plans is not probable.

Postretirement Benefits

The Company and its wholly-owned subsidiaries provide postretirement health care and life benefits to certain union and non-union employees. The Company recognizes the cost of providing postretirement benefits during employees' active service period.

The components of net postretirement benefits cost are as follows:

(Dollars in millions)	Fiscal 1995	Fiscal 1994	Fiscal 1993
Service cost	$ 0.6	$ 0.6	$ 0.6
Interest cost	2.9	3.6	3.9
Net amortization and deferral	(0.8)	—	—
Net postretirement benefits cost	$ 2.7	$ 4.2	$ 4.5

The unfunded status of the plans is as follows:

(Dollars in millions)	Fiscal 1995	Fiscal 1994
Unfunded accumulated benefit obligation:		
Retirees	$19.1	$24.0
Fully eligible active plan participants	3.5	3.6
Other active plan participants	13.2	8.2
	35.8	35.8
Unrecognized net gain from experience differences	15.6	15.0
Accrued postretirement costs	$51.4	$50.8
Assumed discount rate	7.0%	8.5%

The assumed rate of future increase in health care benefit cost was 10.0% in fiscal 1995 and is expected to decline to 5.0% by the year 2025 and remain at that level thereafter. The effect of a one-percentage-point increase in the assumed health care cost trend rate for each future year on the net postretirement health care cost and the accumulated postretirement benefit obligation would be $0.4 million and $3.3 million, respectively.

Postemployment Benefits

Effective February 27, 1994, the Company adopted Statement of Financial Accounting Standards No. 112 "Employers' Accounting for Postemployment Benefits" ("SFAS 112"). SFAS 112 requires the accrual of costs for preretirement postemployment benefits provided to former or inactive employees and the recognition of an obligation for these benefits.

The Company's previous accounting policy had been to accrue for workers' compensation and a principal portion of long-term disability benefits and to expense other postemployment benefits, such as short-term disability, as incurred. As a result of adopting SFAS 112, the Company recorded a charge of $5.0 million, net of applicable income taxes of $3.9 million, as the cumulative effect of recording the obligation as of the beginning of fiscal 1994. The effect of adopting SFAS 112 had an immaterial effect on the financial results before the cumulative effect of accounting change for fiscal 1994.

STOCK OPTIONS

On March 18, 1994, the Board of Directors approved the 1994 Stock Option Plan for its officers and key employees. The 1994 Stock Option Plan provides for the granting of 1,500,000 shares as either options or Stock Appreciation Rights ("SAR's"). Options and SAR's issued under this plan are granted at the fair market value of the Company's common stock at the date of grant. SAR's allow the optionee, in lieu of purchasing stock, to receive cash in an amount equal to the excess of the fair market value of common stock on the date of exercise over the option price. A total of 669,000 options and 10,000 SAR's were granted in fiscal 1995.

On March 18, 1994, the Board of Directors approved a 1994 Stock Option Plan for Directors of the Company. This plan provides for the granting of up to 100,000 stock options, which are granted at the fair market value of the Company's common stock at the date of grant. Options granted under this plan in fiscal 1995 totaled 1,800.

The Company had a 1984 Stock Option Plan for its officers and key employees which expired on February 1, 1994. The 1984 Stock Option Plan, which provided for the granting of 1,500,000 shares was amended as of July 10, 1990, to increase by 1,500,000 the number of options available for grant as either options or SAR's. Each option was available for grant at the fair market value of the Company's common stock on the date the option was granted.

A summary of SAR transactions is as follows:

Officers and Key Employees	Shares	Price Range Per Share
Outstanding February 27, 1993	1,179,125	$21.50 - $65.13
Granted	1,270,000	23.38 - 26.00
Cancelled or expired	(35,000)	23.38 - 52.38
Outstanding February 26, 1994	2,414,125	$21.50 - $65.13
Cancelled or expired	(26,500)	39.75 - 59.00
Exercised	(2,500)	23.38
Outstanding February 25, 1995	2,385,125	$21.50 - $65.13
Granted	10,000	21.88
Cancelled or expired	(166,750)	23.38 - 46.38
Exercised	(75,625)	21.50 - 24.75
Outstanding February 24, 1996	2,152,750	$21.50 - $65.13
Exercisable at:		
February 25, 1995	1,575,625	$21.50 - $65.13
February 24, 1996	1,666,500	$21.50 - $65.13

A summary of option transactions is as follows:

Officers, Key Employees and Board of Directors	Shares	Price Range Per Share
Outstanding February 27, 1993	15,000	$27.63
Outstanding February 26, 1994	15,000	$27.63
Granted	69,800	21.50 - 26.50
Outstanding February 25, 1995	84,800	$21.50 - $27.63
Granted	670,800	21.88 - 27.88
Cancelled or expired	(10,000)	27.88
Outstanding February 24, 1996	745,600	$21.50 - $27.88
Exercisable at:		
February 25, 1995	11,250	$27.63
February 24, 1996	34,100	$21.50 - $27.63

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans. SFAS 123 encourages all entities to adopt a fair value based method of accounting for stock-based compensation plans in which compensation cost is measured at the date the award is granted based on the value of the award and is recognized over the employees' service period. However, SFAS 123 allows an entity to continue to use the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), with proforma disclosures of net income and earnings per share as if the fair value based method had been applied. APB 25 requires compensation expense to be recognized over the employees' service period based on the excess, if any, of the quoted market price of the stock at the date the award is granted or other measurement date, as applicable, over an amount an employee must pay to acquire the stock. SFAS 123 is effective for financial statements for fiscal years beginning after December 15, 1995. The Company plans to adopt SFAS123 during fiscal 1996 and to continue to apply the methods prescribed by APB 25.

LITIGATION

The Company is involved in various claims, administrative agency proceedings and lawsuits arising out of the normal conduct of its business. Although the ultimate outcome of these legal proceedings cannot be predicted with certainty, the management of the Company believes that the resulting liability, if any, will not have a material effect upon the Company's consolidated financial statements or liquidity.

OPERATIONS IN GEOGRAPHIC AREAS

The Company has been engaged in the retail food business since 1859 and currently does business principally under the names A&P, Waldbaum's, Food Emporium, Super Fresh, Farmer Jack, Kohl's, Sav-A-Center, Dominion, Miracle Food Mart and Food Basics. Sales in the table below reflect sales to unaffiliated customers in the United States and Canada.

(Dollars in thousands)	Fiscal 1995	Fiscal 1994	Fiscal 1993
Sales:			
United States	$ 8,365,327	$ 8,540,871	$ 8,466,338
Foreign	1,736,029	1,791,079	1,917,739
Total	$10,101,356	$10,331,950	$10,384,077
Income (Loss) From Operations:			
United States	$ 125,118	$ 137,804	$ 101,305
Foreign	26,616	(195,334)	(33,025)
Total	$ 151,734	$ (57,530)	$ 68,280
Assets:			
United States	$ 2,454,347	$ 2,482,108	$ 2,528,239
Foreign	422,494	412,680	570,456
Total	$ 2,876,841	$ 2,894,788	$ 3,098,695

ACQUISITIONS

In March 1993, the Company acquired certain assets, including inventory, of 48 Big Star stores in the Atlanta, Georgia area for approximately $43 million. As of the acquisition date, the fair value of assets recorded was $72 million and liabilities assumed were $48 million. The acquisition has been accounted for as a purchase and, accordingly, the excess of cost over the fair market value of net assets acquired of approximately $19 million has been included in the balance sheet caption "Other assets."

REALIGNMENT OF STORE OPERATIONS

During fiscal 1992, the Company reassessed store operations in its markets and closed certain stores and identified certain other stores to be closed in the future as part of its realignment of certain operating divisions in the United States and Canada. This program, which included 72 stores, was completed by the end of fiscal 1995. The Company recorded a charge of $43 million in fiscal 1992 to cover the cost of these closings, including future rent, property taxes, common area maintenance costs and equipment disposition costs. These costs, which only included costs subsequent to the actual store closings, were paid principally over four years. During fiscal 1995 and fiscal 1994, store closing costs of approximately $2 million and $14 million, respectively, were charged to this reserve, which did not include the costs associated with closing older and outmoded stores which close in the ordinary course of business and tend to be insignificant as these stores are generally near the end of their lease term and have low net asset values. As of February 24, 1996, the Company had utilized the total amount of this reserve.

In the third quarter of fiscal 1994, the Company recorded a charge in Store operating, general and administrative expense of $17 million to cover the cost of closing 13 non-Miracle stores in Canada during fiscal 1995. The Company utilized $13 million of this reserve in fiscal 1995 and expects to utilize the remaining portion of this reserve during fiscal 1996. As of February 24, 1996, all of the stores were closed.

SUMMARY OF QUARTERLY RESULTS
(unaudited)

The table below summarizes the Company's results of operations by quarter for fiscal 1995 and 1994. The first quarter of each fiscal year contains sixteen weeks while the other quarters each contain twelve weeks.

(Dollars in thousands, except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1995					
Sales	$3,135,514	$2,341,171	$2,293,597	$2,331,074	$10,101,356
Gross margin	909,812	669,103	666,121	690,201	2,935,237
Depreciation and amortization	70,400	52,340	51,957	50,752	225,449
Income from operations	46,884	29,861	29,235	45,754	151,734
Interest expense	22,873	16,197	17,159	16,914	73,143
Net income	14,550	9,384	7,735	25,555	57,224
Per share data:					
Net income	.38	.25	.20	.67	1.50
Cash dividends	.05	.05	.05	.05	.20
Market price:					
High	26.250	28.625	28.875	24.875	
Low	19.000	23.875	20.000	19.500	
Number of stores at end of period	1,082	1,063	1,043	1,014	
1994					
Sales	$3,225,359	$2,390,914	$2,345,597	$2,370,080	$10,331,950
Gross margin	912,644	680,911	670,572	679,328	2,943,455
Depreciation and amortization	75,019	57,063	53,522	49,840	235,444
Income (loss) from operations	31,778	25,868	(144,568)	29,392	(57,530)
Interest expense	20,809	16,807	17,446	17,910	72,972
Income (loss) before cumulative effect of accounting change	7,245	6,057	(185,665)	5,777	(166,586)
Cumulative effect on prior years of change in accounting principle:					
Postemployment benefits	(4,950)	—	—	—	(4,950)
Net income (loss)	2,295	6,057	(185,665)	5,777	(171,536)
Per share data:					
Income (loss) before cumulative effect of accounting change	.19	.16	(4.86)	.15	(4.36)
Cumulative effect on prior years of change in accounting principle:					
Postemployment benefits	(.13)	—	—	—	(.13)
Net income (loss)	.06	.16	(4.86)	.15	(4.49)
Cash dividends	.20	.20	.20	.05	.65
Market price:					
High	27.375	24.500	27.125	23.000	
Low	22.625	19.875	21.625	17.375	
Number of stores at end of period	1,152	1,123	1,111	1,108	

Management's Report on Financial Statements

The management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to our business and, by necessity and circumstance, include some amounts which were determined using management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide reasonable assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with management, internal auditors and the independent auditors, Deloitte & Touche LLP, to review each of their respective activities.

James Wood
Chairman of the Board
and Chief Executive Officer

Fred Corrado
Vice Chairman of the Board
and Chief Financial Officer

Independent Auditors' Report

To the Shareholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have audited the accompanying consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 24, 1996 and February 25, 1995 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three fiscal years in the period ended February 24, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies at February 24, 1996 and February 25, 1995 and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 24, 1996 in conformity with generally accepted accounting principles.

As discussed in Notes to Consolidated Financial Statements, in fiscal 1994 the Company changed its method of accounting for postemployment benefits to conform with Statement of Financial Accounting Standards No. 112.

Deloitte & Touche LLP

Parsippany, New Jersey
April 25, 1996

Five-Year Summary of Selected Financial Data

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands, except per share figures)	Fiscal 1995 (52 weeks)	Fiscal 1994 (52 weeks)	Fiscal 1993 (52 weeks)	Fiscal 1992 (52 weeks)	Fiscal 1991 (53 weeks)
Operating Results					
Sales	$10,101,356	$10,331,950	$10,384,077	$10,499,465	$11,590,991
Income (loss) from operations	151,734	(57,530)	68,280	44,306	203,854
Depreciation and amortization	225,449	235,444	235,910	228,976	224,641
Interest expense	73,143	72,972	63,318	66,436	81,416
Income (loss) before cumulative effect of accounting changes	57,224	(166,586)	3,959	(98,501)	70,664
Cumulative effect on prior years of changes in accounting principles:					
Postemployment benefits	—	(4,950)	—	—	—
Income taxes	—	—	—	(64,500)	—
Postretirement benefits	—	—	—	(26,500)	—
Net income (loss)	57,224	(171,536)	3,959	(189,501)	70,664
Per Share Data					
Income (loss) before cumulative effect of accounting changes	1.50	(4.36)	.10	(2.58)	1.85
Cumulative effect on prior years of changes in accounting principles:					
Postemployment benefits	—	(.13)	—	—	—
Income taxes	—	—	—	(1.69)	—
Postretirement benefits	—	—	—	(.69)	—
Net income (loss)	1.50	(4.49)	.10	(4.96)	1.85
Cash dividends	.20	.65	.80	.80	.80
Book value per share	21.53	20.27	26.02	27.06	32.79
Financial Position					
Current assets	1,184,102	1,193,731	1,230,339	1,221,492	1,255,908
Current liabilities	1,005,795	1,096,454	1,151,132	1,164,723	1,082,042
Working capital	178,307	97,277	79,207	56,769	173,866
Current ratio	1.18	1.09	1.07	1.05	1.16
Expenditures for property	236,139	214,886	267,329	204,870	161,902
Total assets	2,876,841	2,894,788	3,098,695	3,090,930	3,293,267
Current portion of long-term debt	13,040	112,821	77,755	104,660	55,953
Current portion of capital lease obligations	13,125	14,492	16,097	18,021	18,604
Long-term debt	650,169	612,473	544,399	414,301	486,129
Long-term portion of capital lease obligations	129,887	146,400	162,866	182,066	206,003
Total debt	806,221	886,186	801,117	719,048	766,689
Debt to total capitalization	.49	.53	.45	.41	.38
Equity					
Shareholders' equity	822,785	774,914	994,417	1,034,330	1,253,106
Weighted average shares outstanding	38,220,000	38,220,000	38,220,000	38,219,000	38,211,000
Number of registered shareholders	10,010	10,867	11,831	12,309	12,871
Other					
Number of employees	89,000	92,000	94,000	90,000	94,600
New stores openings	30	22	16	11	18
Number of stores at year end	1,014	1,108	1,173	1,193	1,238
Total store area (square feet)	34,669,000	36,441,000	37,908,000	37,741,000	38,742,000
Number of franchised stores at year end	7	—	—	—	—
Total franchised stores area (square feet)	177,936	—	—	—	—

Corporate Officers

James Wood
Chairman of the Board and Chief Executive Officer

Christian W.E. Haub
President and Chief Operating Officer

Fred Corrado
Vice Chairman of the Board and Chief Financial Officer

Gerald L. Good
Executive Vice President, Marketing and Merchandising

J. Wayne Harris
Executive Vice President, Canadian Operations

Peter J. O'Gorman
Executive Vice President, International Store and Product Development

George Graham
Senior Vice President, Chief Merchandising Officer

Veronica Hackett
Senior Vice President, Real Estate

Clifford J. Horler
Senior Vice President, Development

H. Nelson Lewis
Senior Vice President, Human Resources

Michael J. Rourke
Senior Vice President, Communications and Corporate Affairs

Ivan K. Szathmary
Senior Vice President, Chief Services Officer

Robert G. Ulrich
Senior Vice President, General Counsel

Peter R. Brooker
Vice President, Planning and Corporate Secretary

Stephen T. Brown
Vice President, Labor Relations

Timothy J. Courtney
Vice President, Taxation

Donald B. Dobson
Vice President, Southeast and Southern Operations

R. Paul Gallant
President, Compass Foods

R. Terrence Galvin
Vice President, Treasurer

Kenneth W. Green
Vice President, Produce Merchandising and Procurement

Robert A. Keenan
Vice President, Chief Internal Auditor

Peter R. Lavoy
Vice President, Grocery Merchandising and Procurement

Francis X. Leonard
Vice President, Real Estate Administration

Mary Ellen Offer
Vice President, Assistant Corporate Secretary and Senior Counsel

Brian Pall
Vice President, Real Estate Development

Richard J. Scola
Vice President, Assistant General Counsel

J. Paul Stillwell
President, Supermarket Service Corp.

Craig C. Sturken
Group Vice President, Michigan Group

Kenneth A. Uhl
Vice President, Controller

William T. Wolverton
Vice President, Warehousing and Transportation

Directors

James Wood (c)(d)(e)
Chairman of the Board and Chief Executive Officer

Rosemarie Baumeister (b)
Executive Vice President, Tengelmann Warenhandelsgesellschaft, Germany

Fred Corrado (c)(d)(e)
Vice Chairman of the Board and Chief Financial Officer

Christopher F. Edley (a)(b)(c)(e)
President Emeritus and former President and Chief Executive Officer of the United Negro College Fund, Inc.

Christian W.E. Haub (d)
President and Chief Operating Officer

Helga Haub (c)(d)

Barbara Barnes Hauptfuhrer (a)(c)(d)(e)
Director of various corporations

Paul C. Nagel, Jr. (a)(c)(d)
Director of various corporations

Eckart C. Siess (e)
Former Vice Chairman of the Board

Fritz Teelen (d)
President, Plus Subsidiary Tengelmann Warenhandelsgesellschaft, Germany

Henry W. Van Baalen (d)
Business Consultant

R.L. "Sam" Wetzel (a)(b)(d)(e)
President and Chief Executive Officer of Wetzel International, Inc.

(a) Member of Audit Review Committee,
Paul C. Nagel, Jr., Chairman

(b) Member of Compensation Policy Committee,
Christopher F. Edley, Chairman

(c) Member of Executive Committee,
James Wood, Chairman

(d) Member of Finance Committee,
R.L. "Sam" Wetzel, Chairman

(e) Member of Retirement Benefits Committee,
Barbara Barnes Hauptfuhrer, Chairman

Shareholder Information

Executive Offices
Box 418
2 Paragon Drive
Montvale, NJ 07645
Telephone 201-573-9700

Transfer Agent and Registrar
American Stock Transfer and Trust Company
40 Wall Street
New York, NY 10005
Telephone 212-936-5100

Independent Auditors
Deloitte & Touche LLP
Two Hilton Court
Parsippany, NJ 07054

Shareholder Inquiries, Publications and Address Changes
Shareholders, security analysts, members of the media and others interested in further information about the Company are invited to contact the Corporate Affairs Department at the Executive Offices in Montvale, New Jersey.

Correspondence concerning address changes should be directed to:
American Stock Transfer and Trust Company
40 Wall Street
New York, NY 10005
Telephone 212-936-5100

Form 10-K
Copies of Form 10-K filed with the Securities and Exchange Commission will be provided to shareholders upon written request to the Secretary at the Executive Offices in Montvale, New Jersey.

Annual Meeting
The Annual meeting of Shareholders will be held at 10:00 a.m. on Tuesday, July 9, 1996 at the Marriott Waterfront Hotel, 80 Compromise St., Annapolis, Maryland. Shareholders are cordially invited to attend.

Common Stock
Common stock of the Company is listed and traded on the New York Stock Exchange under the ticker symbol "GAP" and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges. The stock is reported in newspapers and periodical tables as "GtAtPc."

The Great
Atlantic & Pacific
Tea Company, Inc.

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